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Milk Distributors

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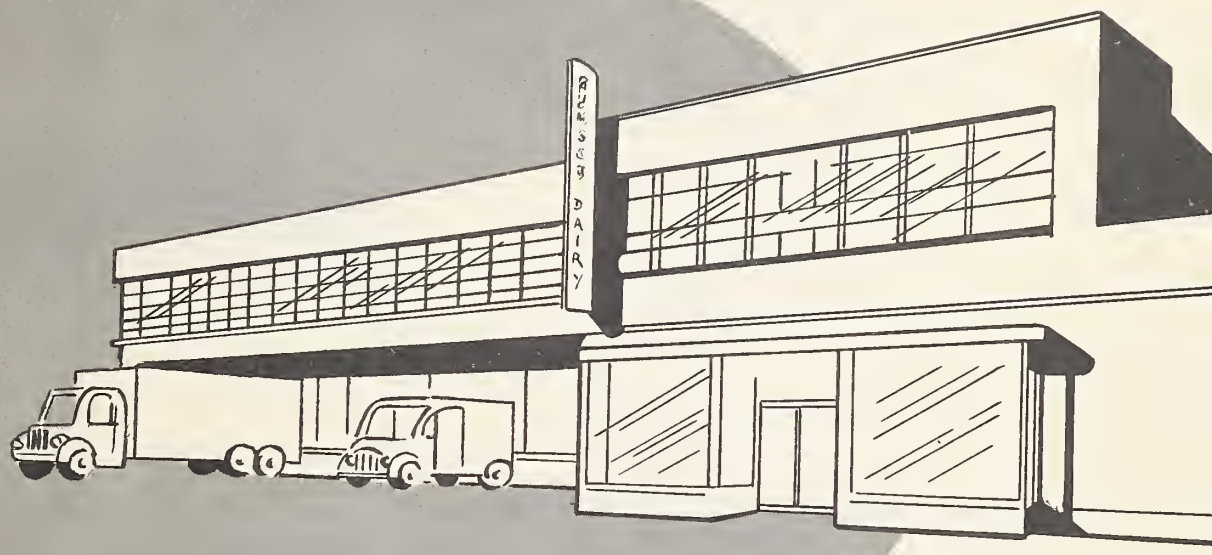

Sales and Costs

July-Sept. 1956

U. S. DEPARTMENT OF AGRICULTURE
Agricultural Marketing Service
Marketing Research Division

AMS-180

MILK DISTRIBUTORS' SALES AND COSTS

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This report is the first of a series based upon information obtained from distributors of fluid milk and cream products. These distributors are subscribers to a cost comparison service which furnished the Department with tabular data for analyses. A uniform accounting system is used and information is given on standardized forms. Data reported include: Costs and quantities of raw milk and other raw materials; prices and quantities of products sold; and operating costs.

The firms selected are considered to be typical in the following characteristics: Privately owned, moderate size and chiefly single plant firms. Very small firms, national chains, and producer-distributors are not included.

All major geographic areas of the country are represented.

Though sales and costs for dairy firms have fluctuated slightly over the past 5 years, seasonal variations, generally, have been greater than the year-to-year variations. Sales value and raw materials costs, per hundred pounds of milk, have declined slightly during this period; all major operating costs have increased substantially. To a considerable degree, seasonal variations result from the price structure for milk and the volume of milk handled.

SALES VALUE SHOWS LITTLE CHANGE

The sales value of dairy products, per hundred pounds of milk purchased, has ranged from a high of $11.58 in the fourth quarter of 1952, to a low of $10.61 in the second quarter of 1956, a variation of about 8 percent. In the third quarter of 1956, the sales value was up $0.49 above the second quarter, but only $0.18 above the third quarter of 1955.

Agriculture-Washington April 1957

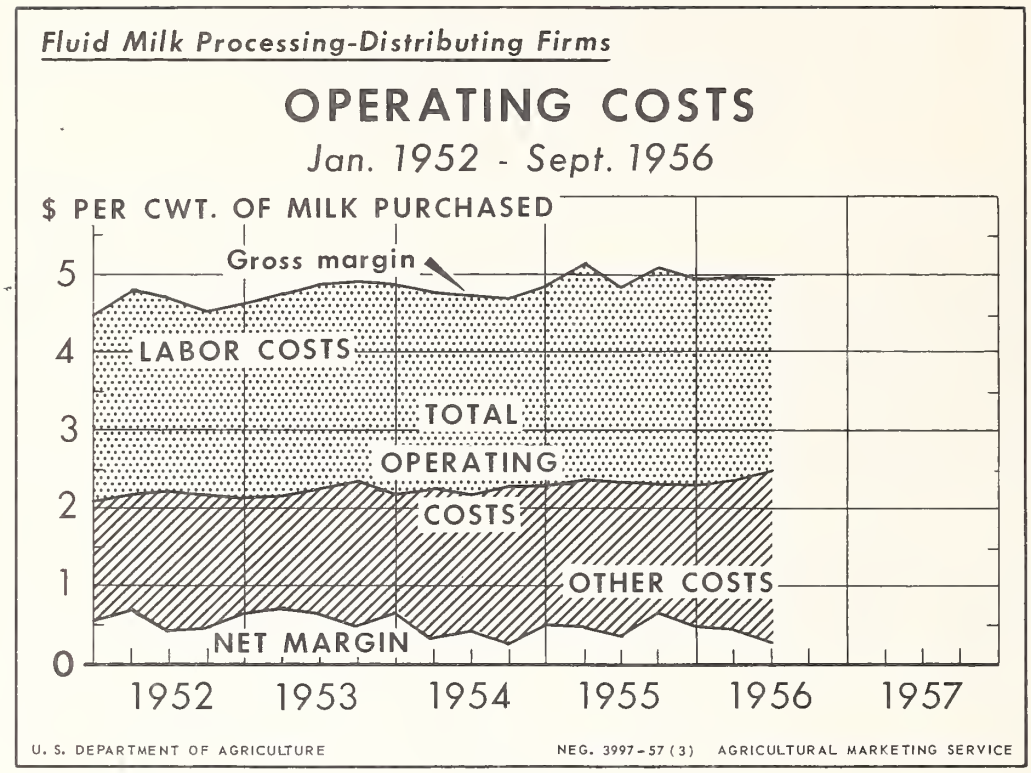

Figure 1

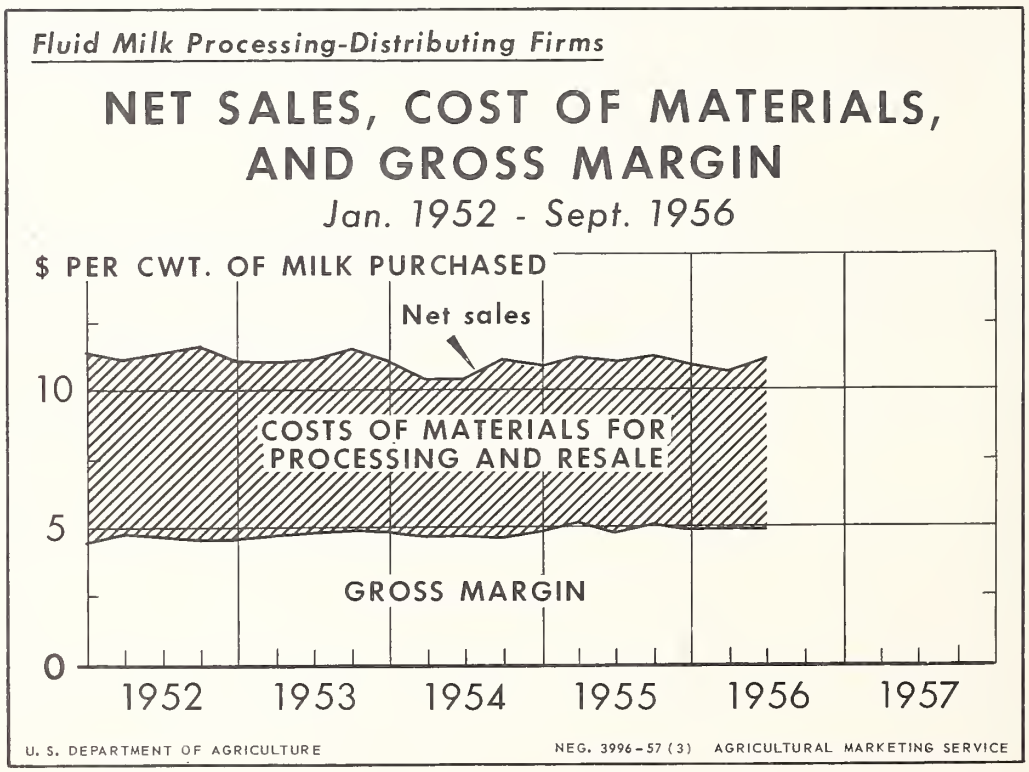

Figure 2

MILK AND CREAM COSTS DECLINE

Costs of materials for processing and for resale have declined in terms of sales value of products. This cost has dropped from 59 percent of sales value in 1952 to 55 percent in 1955. Seasonal variations are also significant in raw materials costs as shown by the increase of 9 percent between the second and third quarter of 1956, compared to an increase of 2 percent between the third quarter of 1955 and the same quarter, 1956 (table 1). The cost of raw milk and cream decreased from 52 percent of sales value in 1952 to 47 percent in 1955; the costs of other raw materials increased fractionally during the entire period of 1952-1956 (table 2).

Table 1.--Yearly and seasonal changes in major cost items, April-June 1956 and July-September 1955 and 1956

Cost category	Yearly changes: July-Sept. 1955 to July-Sept. 1956	Seasonal changes: Apr.-June 1956 to July-Sept. 1956
	Percent	Percent
Net sales	1.6	4.6
Cost of raw materials for processing and resale	1.8	9.0
Gross margin	1.7	- .2
Salaries, wages, commissions 1/	7.9	6.9
Container supplies	-6.9	-5.6
Total cost items	3.8	4.2
Net margin	-27.3	-45.5

1/ Includes State unemployment, Federal old age, workmen's compensation, and employee benefits.

LABOR COSTS INCREASING

Increases in major operating costs have more than offset the decline in cost of raw materials. Salaries, wages and other personnel costs have accounted for about one-fifth of the sales value and more than half of the operating costs since 1952. Although there have been occasional declines, labor costs, per hundred pounds of milk purchased, rose steadily from $2.08 in the first quarter of 1952 to $2.47 in the third quarter of 1956. They are currently about 15 percent higher than in 1952. The sharpest increase was $0.16 between the second and third quarters of 1956.

Table 2.--Trends in operating costs per hundred pounds of milk purchased by years, 1952 to 1954, and by quarters, January-March 1955 to July-September 1956

	1952	1953	1954	1955 Jan.-Mar.	1955 Apr.-June	1955 July-Sept.	1955 Oct.-Dec.	1956 Jan.-Mar.	1956 Apr.-June	1956 July-Sept.
	Dollars	Dollars	Dollars	Dollars	Dollars	Dollars	Dollars	Dollars	Dollars	Dollars
Net sales	11.32	11.12	10.69	10.88	11.19	10.92	11.28	10.88	10.61	11.10
Cost of materials for processing and resale:										
Raw milk and cream	5.85	5.43	5.07	5.16	4.93	5.31	5.38	5.18	4.77	5.23
Other	.86	.90	.86	.86	1.13	.77	.84	.79	.91	.96
Total	6.71	6.33	5.94	6.02	6.06	6.08	6.22	5.97	5.68	6.19
Gross margin	4.61	4.79	4.75	4.86	5.13	4.83	5.06	4.91	4.92	4.91
Operating costs:										
Salaries, wages, and commissions 1/	2.15	2.19	2.21	2.26	2.33	2.29	2.25	2.28	2.31	2.47
Containers	.60	.62	.65	.64	.73	.73	.69	.70	.72	.68
Operating supplies	.30	.32	.35	.34	.34	.29	.30	.28	.27	.28
Repairs, rent, and depreciation	.50	.52	.57	.59	.65	.58	.59	.62	.61	.63
Taxes	.06	.06	.06	.06	.07	.06	.07	.04	.05	.05
Insurance	.02	.02	.03	.03	.03	.04	.03	.03	.03	.03
Services	.16	.19	.19	.17	.20	.20	.16	.15	.17	.19
Advertising	.15	.15	.16	.17	.18	.17	.19	.19	.19	.18
General	.15	.13	.13	.12	.15	.14	.17	.14	.14	.16
Total	4.09	4.20	4.35	4.38	4.68	4.50	4.45	4.43	4.48	4.67
Net margin 2/	.52	.59	.40	.48	.45	.33	.61	.48	.44	.24
Firms reporting	43	51	75	88	83	80	81	80	80	80

1/ Includes State unemployment, Federal old age, workmen's compensation, and employee benefits.
2/ Net returns to owners before income taxes.

OTHER MAJOR COSTS INCREASING

Container costs, as well as repairs, rent, and depreciation each accounted for over 1 percent more of the sales value in 1956 than in 1952. Container costs in the third quarter, 1956, were $0.68 per hundred pounds of milk purchased, 5 cents lower than a year earlier but 10 cents higher than 1952.

Repairs, rent, and depreciation were $0.63 per hundred pounds of milk purchased, in the third quarter 1956; 5 cents higher than the same period the previous year, and 15 cents higher than 1952. With allowance for seasonal variation, this cost has risen steadily for the entire period, 1952-56.

NET MARGIN LOWER

Operating supplies and property taxes per 100 pounds of milk have declined slightly; other operating expenses have increased slightly.

Operating costs, combined, were about 36 percent of sales value in 1952 and about 42 percent in 1956. This increase of 6 percentage points in operating costs has more than offset the decrease of about 5 percentage points in the cost of materials for processing and resale and has resulted in some decline in the net margin, which goes for payment of income taxes and for return on investment. Net margin for the 1952-56 period was highest in 1953, 5.4 percent of sales value, when raw milk and cream prices decreased more than sales value of product and operating costs increased only slightly. The margin for 1956 was about the same level as for 1954--3.7 percent of the sales value. In the third quarter of 1956, substantial increases in raw milk and cream and labor costs resulted in the net margin dropping to the lowest level of the past 5 years.